

---

# PolyGram Record Operations Limited

## Report and Accounts

31 December 1994



# PolyGram Record Operations Limited

---

Registered No. 950138

## **DIRECTORS**

R Ames  
N J Carrington  
A G Pye  
G N Rigg  
PolyGram UK Limited

## **SECRETARY**

M Howle

## **AUDITORS**

Ernst & Young  
Becket House  
1 Lambeth Palace Road  
London SE1 7EU

## **REGISTERED OFFICE**

1 Sussex Place  
London W6 9XS

# PolyGram Record Operations Limited

## DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1994.

### RESULTS AND DIVIDENDS

The results for the year are set out on page 5. The profit on ordinary activities, after taxation amounted to £8,202,000 (1993 – £5,502,000). The directors recommend a final ordinary dividend of £8,000,000 (1993 – £5,200,000). A profit of £202,000 has been retained for the year.

### PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the company were the distribution and marketing of gramophone records and music cassettes together with compact discs and videos. This situation is expected to continue in the coming year. The directors aim to maintain the management policies which have resulted in the company's growth and success in recent years.

### TANGIBLE FIXED ASSETS

The movements in tangible fixed assets during the year are set out in note 9.

### DIRECTORS AND THEIR INTERESTS

The directors at 31 December 1994 are those listed on page 1.

N J Carrington resigned as director on 2 June 1995.

At no time during the year did any director have any interest which is required by section 324 of the Companies Act 1985 to be notified to the company.

### DISABLED EMPLOYEES

The company gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

### CHARITABLE DONATIONS

During the year the company made charitable donations of £16,000.

### EMPLOYEE INVOLVEMENT

During the year, the policy of providing employees with information about the company has been continued. Employees have also been encouraged to present their suggestions and views on the company's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

### AUDITORS

The company's auditors Ernst & Young will continue in office pursuant to an elective resolution passed on 29 November 1990.

By order of the board

Secretary

26/10/95

## PolyGram Record Operations Limited

### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

---

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**REPORT OF THE AUDITORS**  
to the members of PolyGram Record Operations Limited

We have audited the accounts on pages 5 to 15, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 7 and 8.

**Respective responsibilities of directors and auditors**

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

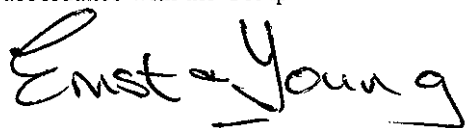
**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1994 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young  
Chartered Accountants  
Registered Auditor  
London

26 October 1995

# PolyGram Record Operations Limited

## PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1994

	Notes	1994 £000	1993 £000
<b>TURNOVER</b>	2	203,530	175,651
Cost of sales		(141,299)	(126,215)
<b>GROSS PROFIT</b>		<u>62,231</u>	<u>49,436</u>
Distribution costs		(8,977)	(9,514)
Administrative expenses		(39,411)	(35,480)
		<u>(48,388)</u>	<u>(44,994)</u>
<b>OPERATING PROFIT</b>		<u>13,843</u>	<u>4,442</u>
Interest receivable and similar income	4	1,703	2,946
Interest payable and similar charges	4	(1,302)	(653)
		<u>401</u>	<u>2,293</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	3	14,244	6,735
Tax on profit on ordinary activities	8	(6,042)	(1,233)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<u>8,202</u>	<u>5,502</u>
Dividend	5	(8,000)	(5,200)
	16	<u>202</u>	<u>302</u>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

A statement of total recognised gains and losses has not been provided since there are no recognised gains or losses other than the profit for the year.

# PolyGram Record Operations Limited

## BALANCE SHEET

at 31 December 1994

	Notes	1994 £000	1993 £000
<b>FIXED ASSETS</b>			
Tangible assets	9	5,644	5,472
Investments	10	72	—
		<u>5,716</u>	<u>5,472</u>
<b>CURRENT ASSETS</b>			
Stocks	11	991	1,135
Debtors	12	179,536	149,056
Cash at bank and in hand		9,263	3,812
		<u>189,790</u>	<u>154,003</u>
<b>CREDITORS: amounts falling due within one year</b>	13	<u>(194,026)</u>	<u>(155,499)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(4,236)</u>	<u>(1,496)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,480</u>	<u>3,976</u>
<b>PROVISION FOR LIABILITIES AND CHARGES</b>			
Deferred taxation	14	(912)	(3,610)
		<u>568</u>	<u>366</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	15	15
Profit and loss account		553	351
		<u>568</u>	<u>366</u>

Director



26/10/95

# PolyGram Record Operations Limited

## NOTES TO THE ACCOUNTS

at 31 December 1994

### 1. ACCOUNTING POLICIES

#### *Accounting convention*

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

#### *Tangible fixed assets*

Depreciation is charged on a straight line basis as follows:

Land	—	Nil
Buildings	—	2%
Piping and wiring	—	5%
Machinery, equipment and installations and rented premises	—	10% and 20%
Office machinery	—	15%
Leased equipment	—	2% – 25%
Motor vehicles	—	25%

#### *Leasing and hire purchase commitments*

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

#### *Pensions*

The company is a member of a funded group scheme and its contributions to the Fund are based on a common rate throughout the group. Pensions are provided under a defined benefit scheme. Charges are made to the profit and loss account (note 7) in general, at a regular ongoing cost which, together with the benefits, are reviewed on the basis of triennial independent actuarial valuations of the Fund.

A formal valuation of the Fund was carried out on 31 March 1993 by professionally qualified actuaries employing the projected unit method. Their main assumptions were that the long term rate of investment return would be 9.5% per annum and that the average future increases in salaries and pensions would be 7.5% per annum and 5% per annum respectively.

At 31 March 1993, the market valuation of the Fund's assets was £1,085 million, and the actuarial valuation of those assets represented 138% of benefits that had accrued to members after allowing for expected future increase in earnings and the pensions but before taking account of benefit improvements and the contribution holiday. The company has followed the actuarial recommendation that pension contributions to the Fund should be suspended from 1 October 1990 until 31 December 1995.

#### *Investments*

Investments are stated at cost less amortisation where appropriate, to arrive at a net value equating to estimated recoverable amounts.



# PolyGram Record Operations Limited

## NOTES TO THE ACCOUNTS

at 31 December 1994

### 1. ACCOUNTING POLICIES (continued)

#### *Advance Royalties Paid*

For advances to artists and repertoire owners, each contract is appraised individually and the value of the unrecouped portion is determined by the prospects of future recoupment taking into account current popularity and sales.

#### *Non-consolidation of subsidiaries*

Consolidated accounts have not been prepared as the company is a wholly owned subsidiary of PolyGram N.V., a company incorporated in the European Community, and is therefore exempt under section 228 of the Companies Act 1985 from the obligation to prepare and deliver group accounts.

#### *Stocks*

Stocks and work in progress are stated at the lower of cost and estimated net realisable value. Cost represents actual cost and consists, in the case of own manufactured products, of direct material and labour costs together with the relevant proportion of factory fixed and variable overheads. Net realisable value is the estimated selling price less estimated costs to disposal.

#### *Foreign currencies*

Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at the market rate of exchange ruling at that date whilst transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. All differences are taken to the profit and loss account.

#### *Deferred taxation*

Deferred taxation is provided on the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that taxation will be payable.

### 2. TURNOVER

Turnover represents the invoiced value of goods and services excluding value added tax. Turnover is attributable to one activity, recorded music.

Turnover by destination is as follows:

	1994	1993
	£000	£000
United Kingdom	162,269	127,654
Europe	40,433	46,415
USA	463	717
Other	365	865
	<u>203,530</u>	<u>175,651</u>

Turnover by source is exclusively derived in the United Kingdom. Consequently profit on ordinary activities before tax and net assets are all attributable to United Kingdom activities.

# PolyGram Record Operations Limited

## NOTES TO THE ACCOUNTS

at 31 December 1994

### 3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging/(crediting):

	1994	1993
	£000	£000
Auditors' remuneration	146	95
Depreciation of tangible fixed assets	1,577	1,244
Exchange gains	(206)	(96)
Operating lease rentals – plant and machinery	1,123	1,320
– other	2,132	2,060
	<u>          </u>	<u>          </u>

Fees paid to the auditors for non-audit services were £49,000.

### 4. INTEREST

	1994	1993
	£000	£000
Interest receivable:		
Group undertakings	(1,687)	(2,790)
Others	(16)	(156)
	<u>(1,703)</u>	<u>(2,946)</u>
Interest payable:		
Group undertakings	23	20
Other	1,279	633
	<u>1,302</u>	<u>653</u>

### 5. DIVIDENDS

	1994	1993
	£000	£000
Ordinary – interim paid	3,370	–
– final proposed	4,630	5,200
	<u>8,000</u>	<u>5,200</u>

### 6. DIRECTORS' REMUNERATION

	1994	1993
	£000	£000
Directors' remuneration (including pension contributions)	1,377	517
Emoluments of the chairman (excluding pension contributions) who was also the highest paid director	947	212
	<u>          </u>	<u>          </u>

# PolyGram Record Operations Limited

## NOTES TO THE ACCOUNTS

at 31 December 1994

### 6. DIRECTORS' REMUNERATION (continued)

The number of directors whose emoluments (excluding pension contributions) fell within the following ranges were:

		1994 No.	1993 No.
£nil	– £5,000	1	1
£50,001	– £55,000	–	1
£65,001	– £70,000	1	–
£85,001	– £90,000	–	1
£115,001	– £120,000	1	–
£135,001	– £140,000	–	1
£195,001	– £200,000	–	1
£215,001	– £220,000	1	–
£970,001	– £975,000	1	–

Management charges from a fellow subsidiary of the ultimate parent undertaking contain a charge for managerial services including that of a director which is not separately identifiable.

### 7. STAFF COSTS

Staff costs, including directors remuneration during the year amounted to:

	1994 £000	1993 £000
Wages and salaries	17,295	16,214
Social security costs	1,708	1,605
Other pension costs	90	88
	<u>19,093</u>	<u>17,907</u>

The average weekly number of employees including directors during the year was as follows:

	1994 No.	1993 No.
Commercial and administrative	<u>781</u>	<u>805</u>

The pension cost for the company was £90,000 after reduction of £580,000 being the benefit gained from a contribution holiday, which is being recognised in full over the period to 31 December 1994.

# PolyGram Record Operations Limited

## NOTES TO THE ACCOUNTS

at 31 December 1994

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

Corporation tax has been provided at 33% for the year ended 31 December 1994.

	1994	1993
	£000	£000
Current year:		
Corporation tax	5,289	2,215
Group relief payable	3,300	957
Deferred tax	(2,698)	(1,306)
	<u>5,891</u>	<u>1,866</u>
Prior years:		
Corporation tax	(378)	317
Group relief payable	529	(645)
Deferred tax	—	(305)
	<u>151</u>	<u>(633)</u>
	<u>6,042</u>	<u>1,233</u>

### 9. TANGIBLE FIXED ASSETS

	<i>Plant and equipment</i>
	£000
Cost:	
At 31 December 1993	10,263
Additions	1,929
Transfers from group undertakings	9
Disposals	(1,338)
At 31 December 1994	<u>10,863</u>
Depreciation:	
At 31 December 1993	4,791
Provided during the year	1,577
Transfers from group undertakings	21
Disposals	(1,170)
At 31 December 1994	<u>5,219</u>
Net book value:	
At 31 December 1994	<u>5,644</u>
At 31 December 1993	<u>5,472</u>

# PolyGram Record Operations Limited

## NOTES TO THE ACCOUNTS

at 31 December 1994

### 9. TANGIBLE FIXED ASSETS (continued)

The historical cost and depreciation thereon of assets purchased under finance leases, which are included in the above totals is as follows:

	£000
Cost	84
Depreciation	(61)
Net book value	<u>23</u>

### 10. INVESTMENTS

	<i>Subsidiary undertaking</i> £000	<i>Limited partnership</i> £000	<i>Total</i> £000
Cost:			
At 1 January 1994	-	-	-
Additions	-	222	222
At 31 December 1994	-	<u>222</u>	<u>-</u>
Amounts written off:			
1 January 1994	-	-	-
Result current year	-	(150)	(150)
Disposals	-	-	-
At 31 December 1994	-	<u>(150)</u>	<u>(150)</u>
Net book value:			
At 31 December 1994	-	<u>72</u>	<u>72</u>
At 1 January 1994	-	-	-

The company's investment in a Limited Partnership represents a 50% share in Def American, which is involved in licensing and distributing recorded music in the United Kingdom. The aggregate investment in subsidiary undertakings and in the limited partnership under equity accounting at 31 December 1994 is £nil (1993 - £944,000).

### 11. STOCKS

	1994 £000	1993 £000
Finished goods	<u>991</u>	<u>1,135</u>

# PolyGram Record Operations Limited

## NOTES TO THE ACCOUNTS

at 31 December 1994

### 12. DEBTORS

	1994	1993
	£000	£000
Trade debtors	79,010	82,716
Group undertakings:		
Overseas group undertakings	15,155	19,249
UK group undertakings	80,953	41,070
Other debtors	3,940	5,246
Prepayments	478	668
Current corporation tax	—	107
	<u>179,536</u>	<u>149,056</u>

In accordance with industry practice advances to artists include certain amounts receivable after one year.

### 13. CREDITORS: amounts falling due within one year

	1994	1993
	£000	£000
Trade creditors	73,752	65,897
Group undertakings:		
Overseas group undertakings	5,863	6,298
UK group undertakings	42,846	30,446
Dividends payable	4,630	5,200
Associated undertakings	7,676	12,787
Other taxes and social security costs	12,311	3,537
Other creditors	24,001	15,872
Accruals	18,795	15,462
Current corporation tax	4,152	—
	<u>194,026</u>	<u>155,499</u>

### 14. DEFERRED TAXATION

The full potential liability for deferred tax has been provided for the year to 31 December 1994 at the effective rate of corporation tax of 33% (1993 – 33%). The directors do not consider it reasonable at present to assume that timing differences will not reverse in the foreseeable future.

	1994	1993
	£000	£000
Capital allowances in advance of depreciation	(246)	(405)
Other differences in recognising revenue and expense items in other periods for taxation purposes	5,558	(4,187)
Recording costs	(4,400)	8,202
	<u>912</u>	<u>3,610</u>

# PolyGram Record Operations Limited

## NOTES TO THE ACCOUNTS

at 31 December 1994

### 15. SHARE CAPITAL

	<i>1994</i>	<i>Authorised</i>	<i>Allotted, called up</i>	<i>and fully paid</i>
	<i>1994</i>	<i>1993</i>	<i>1994</i>	<i>1993</i>
	<i>No.</i>	<i>No.</i>	<i>£</i>	<i>£</i>
Ordinary shares of £1 each	15,000	15,000	15,000	15,000

### 16. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Share</i>	<i>Profit and</i>	<i>Total</i>
	<i>capital</i>	<i>loss account</i>	
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 1993	15	49	64
Retained profit for the year	—	302	302
At 1 January 1994	15	351	366
Retained profit for the year	—	202	202
At 31 December 1994	15	553	568

### 17. FINANCIAL COMMITMENTS

At 31 December 1994 the company had annual non-cancellable operating leases as set out below:

	<i>1994</i>	<i>1993</i>
	<i>Land and</i>	<i>Land and</i>
	<i>buildings</i>	<i>buildings</i>
	<i>£000</i>	<i>£000</i>
Operating leases which expire:		
within one year	—	241
within two to five years	785	894
in over five years	1,234	—
	2,019	1,135

NOTES TO THE ACCOUNTS

at 31 December 1994

**18. PARENT UNDERTAKING**

The parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member is Philips Electronics N.V., incorporated in The Netherlands, and the parent undertaking of the smallest such group is PolyGram N.V., incorporated in The Netherlands. Copies of Philips Electronics N.V.'s accounts can be obtained from:

Philips Electronics N.V.  
Corporate Finance Securities  
Groenewoudseweg 1  
5621 BA EINDHOVEN  
The Netherlands

and copies of PolyGram N.V.'s accounts can be obtained from:

PolyGram N.V.  
Gerrit van der Veenlaan 4  
3743 DN BAARN  
The Netherlands